Arms Sales to the Third World Slacken (U)

Leveling Off of Sales in 1978

After large gains in 1977,[1] arms sales to the Third World [2] leveled off at about $24 billion in 1978—a 5 to 10 percent decline in real terms. The loss of momentum was largely attributable to Iran's withdrawal from the market and the failure of several of Moscow's largest customers (Ethiopia, Iraq, Libya, and Syria) to repeat their massive orders of earlier years. A drop of more than two-thirds in sales to these major arms customers was not fully offset by larger Saudi Arabian, Egyptian, Indian, and Israeli orders. (U)

US sales in fiscal year 1978 [3] jumped 20 percent and were led by sales to (a) Saudi Arabia, up to $4.2 billion from $1.9 billion; (b) Israel, up to $1.9 billion from $720 million; and (c) Egypt, up to $940 million from $3 million. (The US figures in this report have been revised as a result of the cancellation by Iran of $2.4 billion and $1.9 billion of its 1977 and 1978 contracts, respectively.) At least seven percentage points of the increase in 1978 sales stemmed from price inflation. The increase also reflected the more advanced, more expensive kinds of equipment sold. We are not able to estimate how much higher US sales would have been in the absence of (a) a US arms restraint policy or (b) limitations on sales because of human rights violations. (U)

Soviet sales hit a six-year low in 1978. New Soviet arms agreements dropped to $2.4 billion at US costs ($1.8 billion in Soviet export prices) from a 1977 record of $6.8 billion ($5.7 billion in Soviet export prices). (U)

We have noted a continuing erosion of Soviet dominance in some LDC arms markets. The growing independence of three of Moscow's large traditional customers—India because of political reasons and its easier financial position, Iraq because of its increased oil wealth, and Syria because of the support it has received from oil-rich Arab states—is enabling them to buy heavily from non-Communist suppliers. The diversification of their orders denied the USSR of perhaps $2 billion of sales in 1978. Moscow also has lost Egypt and Iran as big customers in recent years because of changed political attitudes. Soviet arms sales in 1978 also were affected by the pause in orders from some LDC customers, such as Ethiopia, because of continued drawings on earlier contracts and the difficulties of absorbing deliveries of modern weapons on existing contracts. Disenchantment with Soviet support and training programs, as in Peru, and financial constraints are other factors. (U)

[redacted]

[2] *Arms sales* as used in this report refer to all contractual arrangements between arms suppliers and non-Communist less developed countries (LDCs), whether the arms are (a) sold for cash, (b) sold on credit, or (c) provided as outright gifts. *Sales* are differentiated from *deliveries*, which often lag behind sales by as much as several years. The *Third World* is used in this report synonymously with *non-Communist LDCs* and includes (a) all countries of Africa, except the Republic of South Africa; (b) all countries of South and East Asia except Japan, Australia, and New Zealand; (c) all countries in Latin America, except Cuba; and (d) all countries in the Middle East, including Greece and Turkey. (U)

[3] In this report US data are reported on a fiscal year basis; since 1976 the US fiscal year has run from 1 October to 30 September. (U)

[redacted]

[redacted]

US sales figures, although preliminary, are the most complete, with the US fiscal year ending on 30 September 1979. Once again Saudi Arabia has dominated the US order books contracting for $6.4 billion worth of military-related goods and services, largely the construction of schools, encampments and overhaul facilities. The $980 million in sales to Israel, the second-ranking US arms customer, has featured weapons. Other leading US clients are: Egypt, with $625 million in orders, and Taiwan, with $545 million. Overall US sales have gained slightly from $10.3 billion in fiscal year 1978 to $10.5 billion in fiscal year 1979. US deliveries of $7.4 billion have been somewhat below the $7.9 billion figure for 1978. (U)

[redacted]

Continued Slackening of Sales in 1979

Preliminary data for the first 10 months of 1979 suggest an LDC arms market of about $20 billion for the year as a whole, divided by supplier as follows: (a) United States, $10 billion; (b) other non-Communist nations, $5 billion; and (c) Communist—predominantly Soviet—nations about $4-5 billion (in US costs). (U)

[redacted]

We estimate that at their current pace Soviet deliveries will be between $4.5 billion and $5 billion in 1979. [redacted]

Looking Beyond 1979

Given no critical military or economic developments to upset present international balances, arms suppliers face a sluggish arms market in the Third World over the next several years. Sales probably will fall in the $20 billion to $25 billion range, which would entail a substantial decline in real terms. Any decline will further spur suppliers [redacted] We anticipate continuing heavy demands for US technical and infrastructural services, especially from the Middle East. Finally, we expect the USSR to have a tougher time than non-Communist suppliers in maintai .ing its traditional share of the market, especially given the enormous dollar holdings by oil-producing nations. [redacted]

Deliveries probably will grow for a while as earlier commitments are worked off. Soviet deliveries will be maintained for a shorter time because the Soviet backlog is comparatively small. (U)

[redacted]

[redacted]